

Message Text

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C O N F I D E N T I A L LISBON 0070

PASS TO EXPORT-IMPORT BANK, USDOC

E.O. 11652: GDS

TAGS: EGEN, BEXP, PO

SUBJ: EXPORT-IMPORT BANK FINANCING IN PORTUGAL

REF: STATE 280608

1. EMBASSY STRONGLY RECOMMENDS THAT EXPORT-IMPORT BANK RESUME SERIOUS CONSIDERATION OF LONG-TERM CREDIT AND FINANCIAL GUARANTEES FOR PORTUGAL. RECOMMENDATION BASED ON RECENT POLITICAL AND ECONOMIC DEVELOPMENT AS WELL AS IMPORTANT U.S. COMMERCIAL CONSIDERATIONS.

2. GOP IS IN PROCESS OF IMPLEMENTING DIFFICULT AUSTERITY MEASURES. AUSTERITY PROGRAM IS DESIGNED TO HALT DOWNTURN IN ECONOMY, RE-ESTABLISH RATIONAL ECONOMIC POLICIES, AND STIMULATE PRODUCTION. GOP HAS INCREASED PRICES ON ESSENTIAL GOODS TO REDUCE BUDGET OUTLAYS, APPROVED FOREIGN INVESTMENT CODE IN EFFORT TO ATTRACT INVESTMENT, TAKEN MEASURES TO HALT DRAIN ON FOREIGN RESERVES, BEGUN IMPLEMENTATION OF RESTRICTIVE INCOMES POLICY AND MADE FIRST TENTATIVE STEPS IN DISCIPLINING UNRULY LABOR ELEMENTS. MORE MEASURES ARE EXPECTED NOW AND AFTER ELECTIONS. SUCCESSFUL AUSTERITY PROGRAM HOPEFULLY WILL HELP ECONOMY RIGHT ITSELF, CONFIDENTIAL

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PERMIT ECONOMIC DEVELOPMENT, AND PROVIDE GOP WITH AMPLY

CAPABILITY TO REPAY CREDITS.

3. AS PART OF OVERALL PROGRAM, GOP IS ALSO BEGINNING IMPLEMENTATION OF LARGE PUBLIC WORKS AND PRODUCTIVE INVESTMENT PROGRAM. GIVEN TREMENDOUS INCREASE IN SIZE AND INFLUENCE OF PUBLIC SECTOR THROUGH NATIONALIZATIONS AND TEMPORARY PUBLIC MANAGEMENT OF HUNDREDS OF PRIVATE FIRMS, GOP IS NOW KEY INVESTMENT FACTOR. JUST ANNOUNCED 1976 CENTRAL GOVERNMENT BUDGET INCREASES INVESTMENT EXPENDITURES BY 90 PERCENT OVER 1975. GOP IS PRESENTING LARGE PROJECTS FOR FINANCING TO EUROPEAN INVESTMENT BANK (EIB). IT IS CLEAR FINANCING WILL BE CRITICAL FACTOR IN AWARDING OF THESE AND OTHER CONTRACTS. OBVIOUSLY, LARGE IMPORTS OF MACHINERY AND EQUIPMENT AS WELL AS TECHNICAL AND MANAGERIAL SERVICES WILL BE FROM COUNTRIES AWARDED CONTRACTS. WITHOUT EX-IM FINANCING TO MATCH EIB AND OTHER DEVELOPED COUNTRY EXPORT CREDITS, U.S. SHARE OF PORTUGUESE MARKET WILL SHRINK.

4. FIRST MAJOR PROJECT WHERE EX-IM FINANCING WILL BE CRITICAL FACTOR IS \$200 MILLION CNP ETHYLENE PLANT AT SINES. EMBASSY UNDERSTANDS THAT U.S. LUMMUS TECHNOLOGY CLEARLY PREFERRED OVER GERMAN BID BUT THAT FINANCING NOT AVAILABLE. EX-IM FINANCING COULD INSURE AWARD FOR U.S.

5. \$100 MILLION SACOR AROMATICS COMPLEX, \$216 MILLION ALQUEVA DAM PROJECT, \$316 MILLION ALJUSTREL PYRITE DEVELOPMENT, \$600 MILLION NUCLEAR REACTOR AWARD AND SEVERAL RAILWAY PROJECTS (\$1.3 BILLION OVER TEN YEARS) ARE LOOMING ON HORIZON. EMBASSY WILL PROVIDE FURTHER DETAILS AS THEY BECOME AVAILABLE.
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